

CREDIT OPINION

1 July 2016

New Issue

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Shrewsbury (Town of) MA

New Issue - Moody's assigns Aa2 to Shrewsbury, MA's \$10.5M GO Bonds and MIG 1 to \$6.8M GO BANs

Summary Rating Rationale

Moody's Investors Service has assigned a Aa2 rating to the Town of Shrewsbury, MA's \$10.5 million General Obligation Bonds and a MIG 1 rating to the \$6.8 million General Obligation Bond Anticipation Notes (BANs), dated July 29, 2016 and payable July 28, 2017. Concurrently, Moody's has affirmed the Aa2 rating on \$61.1 million of outstanding general obligation debt.

The Aa2 rating reflects the sizeable tax base with above average wealth levels, satisfactory financial position, and manageable debt and pension burdens.

The MIG 1 rating reflects satisfactory liquidity, history of consistent market access, and strong long-term credit characteristics.

Credit Strengths

- » Sizeable tax base with above average wealth levels
- » History of voter support for Proposition 2 ½ debt overrides

Credit Challenges

- » Reserve appropriations are used to balance budgets
- » Minimal unused levy capacity

Rating Outlook

Outlooks are usually not assigned to local government credits with this amount of debt outstanding.

Factors that Could Lead to an Upgrade

- » Substantial growth of reserve levels
- » Sustained material tax base growth and diversification
- » Significant improvement in the demographic profile

Factors that Could Lead to a Downgrade

- » Operating deficits resulting in material reserve declines

- » Significant declines in the tax base or deterioration of the demographic profile
- » Material growth in debt burden without exclusions from Proposition 2 ½

Key Indicators

Exhibit 1

Shrewsbury (Town of) MA	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 5,064,278	\$ 5,064,278	\$ 5,071,030	\$ 5,071,030	\$ 4,974,699
Full Value Per Capita	\$ 142,223	\$ 142,223	\$ 142,413	\$ 138,628	\$ 135,995
Median Family Income (% of US Median)	161.8%	164.0%	166.8%	171.7%	171.7%
Finances					
Operating Revenue (\$000)	\$ 95,353	\$ 97,658	\$ 102,699	\$ 107,938	\$ 112,267
Fund Balance as a % of Revenues	15.7%	15.8%	15.2%	13.8%	13.2%
Cash Balance as a % of Revenues	22.9%	22.4%	22.6%	21.6%	20.4%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 81,082	\$ 76,847	\$ 70,517	\$ 62,101	\$ 58,361
Net Direct Debt / Operating Revenues (x)	0.9x	0.8x	0.7x	0.6x	0.5x
Net Direct Debt / Full Value (%)	1.6%	1.5%	1.4%	1.2%	1.2%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	0.6x	0.7x	0.7x	0.8x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	1.1%	1.3%	1.5%	1.7%

As of June 30 fiscal year-end

Source: Moody's Investors Service

Detailed Rating Considerations

Economy and Tax Base: Moderate New Growth Will Continue to Sizeable Residential Tax Base

Shrewsbury's \$5 billion primarily residential tax base is favorably located in Worcester County on state Route 9 and near the Interstate 495 corridor. Equalized values, which were relatively stable throughout the recession, declined at a modest compound annual rate of 1.4% from fiscal 2011 through 2016. Assessed value increased 3.7% and 5% in fiscal 2015 and 2016, respectively, and the moderate growth will continue given a number of new residential and commercial developments. In addition, construction recently began on a large, mixed-use development, Lakeway Commons, that will contain 100,000 square feet of retail, 250 apartments, and 13 townhomes. Wealth levels continue to trend above commonwealth and national medians with median family income representing 125.6% and 171.7%, respectively. Fiscal 2016 equalized value per capita is a healthy \$137,750, equal to the commonwealth median. The unemployment rate of 3.6% (March 2016) remains below the commonwealth (4.6%) and nation (5.1%).

Financial Operations, Reserves and Coverage: Conservative Budgeting Has Contributed to Stable Fund Balance Despite Annual Reserve Appropriations

The town continues to appropriate reserves as a means to supplement the annual operating budget, but conservative budgeting has allowed most of the appropriations to be replenished by year-end. Total General Fund balance increased in three of the past five years, and overall, reserves remain relatively stable. Audited fiscal 2015 results reflect essentially balanced operations, as total General Fund balance declined a modest \$205,000 (0.2% of revenue), despite appropriating \$3.4 million in the 2015 budget. Available fund balance (excludes restricted) remained unchanged at \$14.8 million or 13.2% of revenue. Unassigned fund balance declined slightly to \$6.7 million or 5.9% of revenue.

Management reports that operations in fiscal 2016 trended positively and expects to replenish the \$3.5 million free cash appropriation and maintain fund balance at current levels.

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The fiscal 2017 budget increased 2.6% from the prior year mostly due to education and health insurance. The tax levy increased 2.7% and \$2.8 million of free cash was appropriated for operating expenditures. Consistent with prior years, an additional \$500,000 was appropriated to reduce the tax levy. We will continue to monitor management's ability to budget conservatively in order to maintain fund balance (as a percentage of revenues) at current levels. To do this, the town will need to generate operating surpluses large enough to not only replenish the appropriations, but also add to fund balance in order to keep up with budgetary growth.

The primary revenue sources are property taxes (57.3% of 2015 revenues) and state aid (22.5%), including aid for education. Current-year property tax collections remain very strong, averaging 99.4% over the past five years. Education (50.3% of 2015 expenditures) and employee benefits (17.8%) represent the largest expenditures.

LIQUIDITY

The net cash position has been very stable for the past six years, and was \$22.9 million, or 20.1% of General Fund revenue, at the close of fiscal 2015. Management reports that the net cash position remains largely unchanged in fiscal 2016. Post issuance, the current issue will be the only short-term notes outstanding. Available liquidity provides over 3 times coverage on the notes, providing ample liquidity to redeem the notes at their July 2017 maturity in the unlikely event of a market disruption and diminished market access.

Debt and Pensions: Manageable Debt Burden; Majority of Debt Supported by Voters

Shrewsbury's 1.4% overall debt burden will remain manageable given satisfactory principal amortization, self-supporting water and sewer debt, significant state school building aid, and a favorable history of voter support for capital projects. Approximately 54% of the town's outstanding debt is excluded from Proposition 2 ½. After adjusting for commonwealth reimbursement, the debt burden drops to an average 1.2% of equalized valuation. Future debt plans include \$14.5 million for upgrades to the water treatment facility, which will be financed with low-interest loans from the Massachusetts Clean Water Trust and paid from user fees. In addition, the town expects the feasibility study for its early childhood center will commence later this year which will eventually lead to borrowing, but the cost is unknown at this time. Shrewsbury is in the process of applying for partial reimbursement from the Massachusetts School Building Authority, and will ask voters to exclude the debt from Proposition 2 ½.

DEBT STRUCTURE

All debt is fixed rate and amortization of principal is slightly below average, with 74% repaid within ten years. Debt service costs of \$8.7 million in fiscal 2015 comprised 7.7% of General Fund expenditures.

DEBT-RELATED DERIVATIVES

Shrewsbury has no derivatives.

PENSIONS AND OPEB

The town is a member of the Shrewsbury Contributory Retirement System, a cost-sharing multi-employer defined benefit retirement plan for substantially all town employees, with the exception of the faculty and professional personnel of the Board of Education. The town continues to contribute the full actuarially determined contribution for the plan, which was \$5.4 million in fiscal 2015, or 4.7% of General Fund expenditures. The reported liability is \$17.4 million as of June 30, 2015. Based on this liability, management projects the plan to be fully funded by 2022, an aggressive target that is well ahead of most local governments in the state as well as the state mandated date of 2040.

The fiscal 2015 three-year average adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$84.7 million, or 0.8 times General Fund revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the town's reported liability information, but to improve comparability with other rated entities.

The town contributes to its OPEB liability on a partial pre-funded basis. The town contributed 34.7% of its annual OPEB cost in fiscal 2015, representing \$2.3 million. The total UAAL for OPEB is \$68.6 million, as of the July 30, 2014 valuation date. The current balance in the OPEB trust is \$2.8 million. When the pension plan is fully funded, management intends to contribute additional funds to reduce the OPEB liability.

Total fixed costs for fiscal 2015, including debt service, required pension contributions and retiree healthcare payments, represented \$16.4 million, or a manageable 14.4% of expenditures.

Management and Governance

Massachusetts cities have an institutional framework score of "Aa," or strong. Revenues are highly predictable due to a heavy reliance on property taxes. Cities have a moderate revenue-raising ability given the Proposition 2 ½ levy limit. Expenditures primarily consist of personnel costs, as well as education costs for cities that manage school operations, and are highly predictable given state-mandated school spending guidelines and employee contracts. Cities have a moderate expenditure reduction ability given the high presence of collective bargaining contracts, offset by low fixed costs in most cases.

Legal Security

The bonds are secured by the town's general obligation unlimited tax pledge, as voters have excluded debt service from the levy limitations of Proposition 2 ½.

The majority of the notes (\$3.5 million) are secured by the town's general obligation limited tax pledge, as debt service is not exempt from Proposition 2 ½. The balance is secured by the town's general obligation unlimited tax pledge, as debt service is exempt from Proposition 2 ½.

Use of Proceeds

Bond proceeds will permanently finance bond anticipation notes due July 29, 2016.

Approximately \$3.8 million of note proceeds will redeem bond anticipation notes due July 29, 2016. The remaining \$3 million will provide new money for school heating system replacements.

Obligor Profile

Shrewsbury has a population of 36,000 and is located Worcester County, approximately 40 miles west of Boston (Aaa stable).

Methodology

The principal methodology used in this general obligation rating was US Local Government General Obligation Debt published in January 2014. The principal methodology used in this bond anticipation rating was US Bond Anticipation Notes published in April 2014. Please see the Ratings Methodologies page on www.moodys.com for a copy of these methodologies.

Ratings

Exhibit 2

Shrewsbury (Town of) MA

Issue	Rating
General Obligation Bonds	Aa2
Rating Type	Underlying LT
Sale Amount	\$10,500,000
Expected Sale Date	07/20/2016
Rating Description	General Obligation
General Obligation Bond Anticipation Notes	MIG 1
Rating Type	Underlying ST
Sale Amount	\$6,800,000
Expected Sale Date	07/20/2016
Rating Description	Note: Bond Anticipation

Source: Moody's Investors Service

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